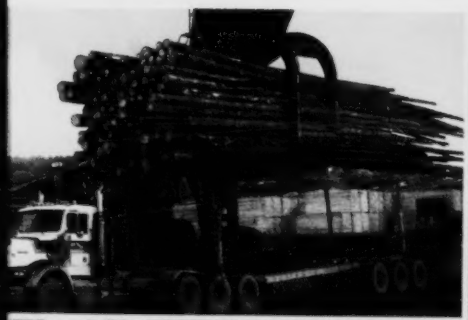
Forestry Innovation Investment

Service Plan Annual Report 2008/09

June 2009



DOC
BC
F675
B:S4
2008/09
c.3

Library and Archives Canada Cataloguing in Publication Data

British Columbia. Forestry Innovation Investment.
Service plan annual report. -- 2004/05-2006/07-

Annual.
ISSN 1718-2565 = Service plan (British Columbia. Forestry Innovation Investment)

1. British Columbia. Forestry Innovation Investment - Periodicals.
2. Forest products - British Columbia - Marketing - Periodicals.
3. Forest products industry - Economic aspects - British Columbia - Periodicals.
4. Forest products industry - Government policy - British Columbia - Periodicals.

I. Title.
II. Title: Forestry Innovation Investment service plan annual report.

HD9764.C7C3 354.5'5'0971105 C2006-960003-1

LEGISLATIVE LIBRARY OF BRITISH COLUMBIA
3 3298 00384 2458

Table of Contents

Message from the Chair to the Minister 1
Organizational Overview 5
Corporate Governance 10
Report on Performance 12
Risks and Opportunities 15
Goal 1: Expanded market Opportunities that are Beneficial to the B.C. Forest Sector 17
Goal 2: International Recognition of B.C. as a Leader in Sustainable Forest Management 21
Goal 3: FII is Highly Effective, Innovative and Responsive Organization 24
Shareholder's Letter of Expectations 25
Financial Report 28
Statement of Management Responsibility 32
Letter from the Auditor 33
Financial Statements 34
Notes to the Financial Statements 38
Contact Information 48

LEGISLATIVE LIBRARY
VICTORIA, B.C. V8V 1X4
FEB 25 2010

Message from the chair to the minister

29 June, 2009

The Honorable Pat Bell
Minister of Forests and Range
Province of British Columbia

Dear Minister:

The forest industry has long been a major economic engine for British Columbia, not only in directly supporting rural communities, but also in generating the wealth to create and maintain public infrastructure throughout the province. Most of that wealth is derived from exports. The industry, however, continues to suffer through perhaps the worst downturn in its history, primarily because of the drastic reduction in demand for building materials in the United States. The fall in demand that began in 2007 was significantly exacerbated with the more general, world-wide economic meltdown in 2008. By early 2009, housing starts in the U.S. were running at an annualized rate of less than 500,000, compared to the peak of 2.1 million in 2005. Demand for wood products has declined world-wide, leading to widespread mill shutdowns not only in B.C., but also in literally every other forest-oriented jurisdiction.

The experience over the past two years has driven home the need to reduce our reliance on U.S. housing activity, and to diversify the long-term markets for B.C. wood products. To that end, Forestry Innovation Investment (FII) continues to work closely with industry and the federal government to retain market share in traditional areas, as well as to create new demand in Asia and in the non-residential sector in the U.S.

With that as the current context, I am pleased to outline some of the ways in which FII has been assisting the forest industry to retain existing markets and diversify beyond. The body of this report will document how B.C.'s share of the market in key countries has changed over the past decade, and will speak to FII's performance relative to the goals and objectives contained in the 2008/09 Service Plan.

FII bases its programming on formal market development strategies developed in collaboration with the federal government and the B.C. forest industry, and informed by in-depth market research. In the past year, the strategies for Japan, Korea, and China were all updated to reflect the most current available information and projections. An in-depth study of the Middle East indicated that we should continue to focus on Asia, where prospect are more substantial, and at least for now, not dissipate our resources by introducing a new program for the Middle East.

In Asia it is apparent that the greatest near-term opportunity for increased lumber sales is in Korea, where wood frame housing is increasingly prominent in the country's widespread drive for "healthy housing". Indeed the central government's plan is for 20 percent of all new housing to be in the form of single-family structures by 2020, and 30 percent to be in the form of five-storey multi-family structures. In pursuing the potential, FII and federal funding to support Canada Wood Group's market development activities will approximately double in the coming year.

A second near-term opportunity is in Mongolia, where FII and the BC Institute of Technology helped the national government to adopt the Canadian wood frame building code in 2007. The Government of Mongolia is committed to stimulating construction of 100,000 housing units by 2015, and has said it would be happy to see half of them built with B.C. wood products. In 2008, FII completed two wood frame demonstration houses in the capital city, a project that was closely tied to several Mongolia government agencies and post-secondary institutes. The project proved the cost-effectiveness and cultural acceptability of the technology, and several commercial

interests are stepping forward to deliver new housing in 2009, with wood products supplied from B.C.

In the longer term, by far the greatest potential to create new demand for B.C. lumber appears to be in China, where detailed market research has identified the nature and geographic distribution of the 11.4 million housing units built each year. 74 percent of those units will be in the form of six-storey walk-up apartment blocks, and the collective priority of Canadian interests is to introduce wood frame elements to those structures. In the past year, FII and Canada Wood Group were successful in achieving regulatory approval of wood truss roofs for retro-fitting apartment blocks in Shanghai. We have proven the roofing technology to be cost-effective, and the remaining "pinch points" in broader commercial uptake are the limited capacity for manufacturing trusses, and the slowness of Chinese government agencies to pay the re-roofing contractors. FII is working with Chinese business interests to overcome those constraints.

Ultimately, the China market development strategy is aimed at having wood truss roofs adopted not only for retro-fitting old apartment blocks, but also for new apartment blocks. Building on the credibility we have secured over the past two years, a more significant goal in multi-family housing is to have interior and exterior walls built partially or entirely with B.C. lumber. Our experience confirms that the most productive approach will again be to use real-world projects to demonstrate the merits of building with wood.

To that end, FII was quick to become involved in reconstruction after the May 2008 Wenchuan Earthquake in Sichuan Province. With $5-million and $3-million donations from the Province of B.C. and the Government of Canada respectively, by September FII had negotiated involvement in three projects: a primary school, a rehabilitation centre, and a senior citizens' home. Each will involve construction of multi-storey wood frame structures that will mimic ordinary multi-storey, multi-family housing. The school will be completed in mid-2009, and the next two by early 2010. In collaboration with Chinese officials, with linkages to post-secondary institutes, and on a cost-shared basis, FII is responsible for the designs, provision of all wood products, and construction.

Chinese officials, most notably Shanghai Mayor Han Zheng, have publicly lauded the merits of rebuilding with wood frame technology. FII is confident that the Wenchuan projects will not only provide significant humanitarian aid to the people harmed by the earthquake, but also demonstrate the seismic, environmental, and economic merits of building with wood, especially for multi-storey, multi-family housing. The total funding across all activities in China is expected to be about 50 percent higher in 2009/10 than it was last year.

On the other side of the world, Europe remains an important market for certain specialty wood products from B.C., especially western red cedar. In mid-2008 FII participated in the first-ever *Vancouverism* architectural exhibition at Canada House in London, England. As part of the bi-annual London Festival of Architecture, which draws some 10,000 to 20,000 architects from all over Europe and elsewhere, FII's focus was on promoting engineered wood products, as well as the environmental merits of B.C. wood products generally. Similarly FII was directly involved in four large trade shows in the United States and Japan, and four major conferences of architects and the green building community.

Closer to home, in 2008 FII provided financial support to the Canadian Wood Council so that it could assist the BC Government in changing the provincial building code to accommodate wood frame buildings of up to six storeys. FII also directly and indirectly supported the showcasing of structural and appearance wood elements in buildings that will feature prominently in the 2010 Olympic and Paralympic Winter Games. Most notable among them are the expanded Vancouver Trade and Convention Centre with its unique and massive interior wood-clad walls, and the Richmond Olympic Oval, of which the "wood wave" roof will likely be the signature visual of the

Games. By the time thousands of international media arrive for the Games, FII will have deployed a fulsome compendium of communications materials promoting BC as the home of world-class forest management, and the source of environmentally friendly forest products to meet virtually every wood-related need.

2008 marked the first full year of the *Business Innovation Program*, by which manufacturing and marketing experts actively reached out to assist value-added firms with product design, business planning, technology improvements, and marketing strategies. In 2009, the UBC Centre for Advanced Wood Processing is expected to join BC Wood Specialties Group and FPInnovations in delivering this program. For the first time, Western Economic Diversification Canada is expected to contribute substantially towards the program in 2009/10, bolstering the longstanding federal/provincial collaboration in much of FII's other programming.

In its *Product Development Program* FII fully funded 12 projects last year that were related to optimizing the use of trees killed by the mountain pine beetle epidemic, and internally completed a fourth and final sawmill lumber recovery study to determine the difference in volume and grade yields from dead pine compared to living trees.

Both domestically and internationally, FII has actively merged communications about the technical merits of B.C. wood products, and the environmental attributes of B.C. forest products generally. FII is responsible for funding and supporting BC's participation in Canada's *International Forestry Partnerships Program* by which we not only host in-coming tour groups, but also support out-going missions by federal and provincial officials. Working closely with the Forest Products Association of Canada, we continue to create and deploy information tailored to the needs of architects, designers, developers, builders, and government officials. Active outreach to those audiences takes the form of attending major trade shows and annual conventions, intervening as appropriate when foreign procurement policies are being crafted, and providing industry groups with leading-edge communications materials, including through an ever-evolving website to link customers and potential customers with B.C. suppliers,

Numerous jurisdictions have created or are in the process of creating procurement policies for timber products. Given our reliance on exports, FII engages with foreign governments to ensure fair consideration for B.C. forest products.

As documented in the body of this report, FII substantially achieved all of the performance targets set in the most recent Service Plan. In delivering on its mandate in 2008/09, FII cash expenditures totaled $24.3 million against an initial budget of $24.0 million, the difference being more than covered by the Province's separate donation towards earthquake reconstruction in China. 44 percent of the expenditures were made by way of paying in whole or part for activities proposed and ultimately delivered by trade associations, the First Nations Forestry Council, FPInnovations and the University of B.C.

RISK AND CAPACITY

The most important factors influencing marketing success are beyond FII's control. Demand for our products is driven by the level of economic activity in other countries, especially residential construction and renovation in the United States. Furthermore, the international competitiveness of B.C. firms is directly tied to the strength of foreign currencies. FII's objective is to positively influence demand for B.C. products within whatever circumstances may prevail at any given time.

For program delivery, FII relies on the willingness and ability of trade associations to propose, deliver, and share the cost of a host of product and market development activities. Despite continuing difficulties in 2008, the B.C. forest industry covered 21 percent of the cost of that work. FII covered 43 percent, and the federal government covered 36 percent. In 2009/10, the

proportions are expected to be slightly less for the industry and FII, and slightly more for the federal government, in part because federal funding will be introduced to the *Business Innovation Program* as mentioned above.

Despite the continuing downturn in the industry, most believe that its long-term prospects are bright, not only because demand will rise again, but also because forest products can be a significant part of the solution to mitigating the impacts of climate change. Sound science-based assessments repeatedly show that wood-based building assemblies are more environmentally friendly than are assemblies built of concrete or steel. Furthermore, the forest industry is better placed than any other industry to become carbon-neutral from harvesting, through manufacturing and marketing. It is also well placed as the source of biomass for various forms of energy, once the economics of large-scale production are in place.

In the context of mitigating climate change impacts, I can confirm that FII is complying with the B.C. Government's requirement that entire public sector be carbon neutral by 2010, and dramatically reduce emissions in the next few years.

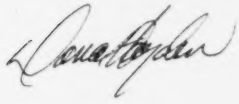
FII exists to promote the fundamental, long-term interests of the province's forest sector. Returns on investment are difficult to quantify because so many other factors affect the well being of the sector, and because much of the work is aimed at long-term outcomes. Nevertheless, FII now operates according to a comprehensive suite of performance measures to track the outcomes of its internal activities and of those delivered by funding recipients.

The 2008/09 Forestry Innovation Investment Ltd. Service Plan Annual Report was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act* and the *BC Reporting Principles*. The Board is accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information reflects the actual performance of FII for the 12 months ended March 31, 2009 in relation to the January 2008 service plan. The measures presented are consistent with FII's mandate, goals and objectives for 2008/09, and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

All significant decisions, events and identified risks, as of March 31, 2009 have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets made since the January 2008 service plan was released and any significant limitations in the reliability of the data are identified in the report.



Dana Hayden
Board Chair

Organizational overview

British Columbia is the largest exporter of softwood lumber in the world, with the output of the provincial forest economy satisfying about 10% of world-wide demand for softwood products. In 2007 these exports of solid wood and pulp and paper generated $10 billion in revenues for the provincial economy.

With more than 70% of provincial forestry output sold internationally, strong foreign markets are fundamentally important to the sector and the 65,000 British Columbians who work in it.

Acknowledging the importance of international markets to the forest sector and the provincial economy, the Province created Forestry Innovation Investment Ltd. (FII) to work with the industry in developing and diversifying markets for B.C. forest products around the world.

MANDATE

FII was incorporated on March 31, 2003 under the *Business Corporations Act* as a provincial Crown agency. A Shareholder's Letter of Expectations from the Minister of Forests and Range, updated in January 2009, confirmed the mandate to:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- work with the forest industry to promote B.C.'s forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

The vision, mission and values of FII reflect the mandate of the organization:

Vision: Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of products from sustainably managed forests.

Mission: To be an innovative and collaborative forest product marketing agency that anticipates and meets the needs of government, the B.C. forest sector, and international markets through well balanced investments that maximize the value to British Columbia.

VALUES

Focus on partnerships – FII works in partnership with key stakeholders to develop initiatives and ensure programs are effectively delivered in a coordinated manner.

Innovation – FII encourages innovative programs and responses to changing circumstances. FII staff learn from the past and continuously improve the effectiveness and efficiency of FII programs by consulting widely and optimizing the use of resources.

Integrity and Credibility – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible and useful.

Investments based on knowledge and excellence – FII strives for transparent decision-making and investment processes based on research.

EXPENDITURES

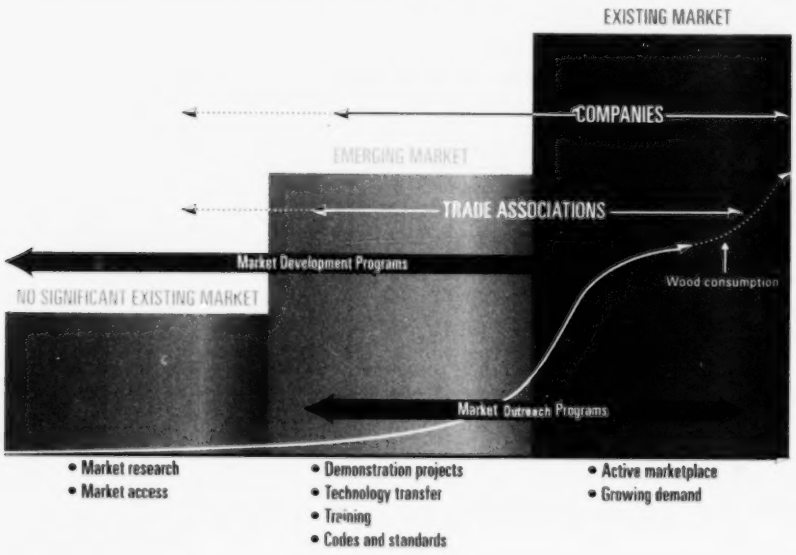
About half of FII's budget is used for activities proposed and delivered by industry trade associations, universities, and research institutes based on each project's alignment with FII's overall investment strategy. Much of this work is jointly funded by FII, industry, and Natural Resources Canada through its *Canada Wood Export Program* and its *North American Wood First Initiative*. For 2008-09 the cost of activities delivered by other organizations were split as follows:

FII	43%
Natural Resources Canada and other federal agencies:	36%
B.C. forest industry:	21%

In 2008-09 FII leveraged more than $15.9 million of contributions from industry and the federal government, resulting in total product and market development initiatives by other organizations of $27.8 million.

SERVICE DELIVERY

In delivering its programs, FII responds to industry priorities. It does not duplicate the efforts of trade associations or provide business subsidies to individual firms. Rather, the emphasis is building demand for B.C. wood products through joint efforts with industry and the federal government. FII provides services of a general benefit to the sector, such as market outreach, research and demonstration projects. The following graphic illustrates



Organizational overview

British Columbia is the largest exporter of softwood lumber in the world, with the output of the provincial forest economy satisfying about 10% of world-wide demand for softwood products. In 2007 these exports of solid wood and pulp and paper generated $10 billion in revenues for the provincial economy.

With more than 70% of provincial forestry output sold internationally, strong foreign markets are fundamentally important to the sector and the 65,000 British Columbians who work in it.

Acknowledging the importance of international markets to the forest sector and the provincial economy, the Province created Forestry Innovation Investment Ltd. (FII) to work with the industry in developing and diversifying markets for B.C. forest products around the world.

FII was incorporated on March 31, 2003 under the *Business Corporations Act* as a provincial Crown agency. A Shareholder's Letter of Expectations from the Minister of Forests and Range, updated in January 2009, confirmed the mandate to:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- work with the forest industry to promote B.C.'s forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

The vision, mission and values of FII reflect the mandate of the organization:

Vision: Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of products from sustainably managed forests.

Mission: To be an innovative and collaborative forest product marketing agency that anticipates and meets the needs of government, the B.C. forest sector, and international markets through well balanced investments that maximize the value to British Columbia.

Focus on partnerships – FII works in partnership with key stakeholders to develop initiatives and ensure programs are effectively delivered in a coordinated manner.

Innovation – FII encourages innovative programs and responses to changing circumstances. FII staff learn from the past and continuously improve the effectiveness and efficiency of FII programs by consulting widely and optimizing the use of resources.

Integrity and Credibility – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible and useful.

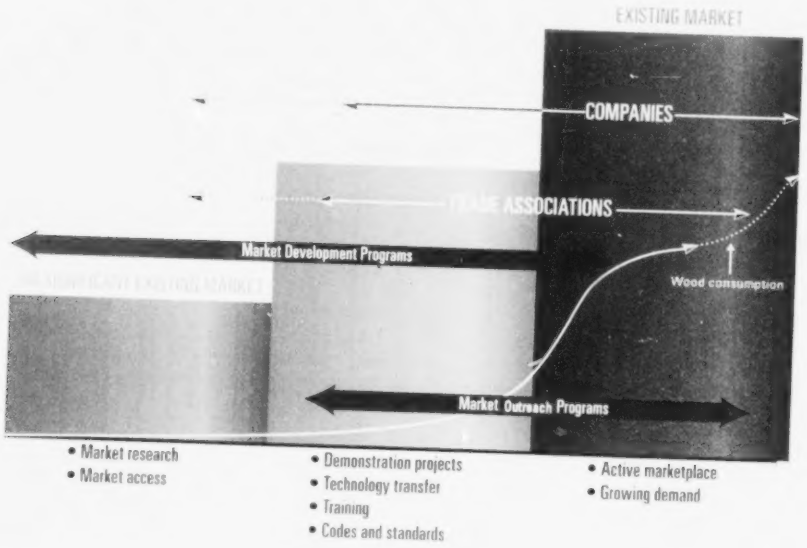
Investments based on knowledge and excellence – FII strives for transparent decision-making and investment processes based on research.

About half of FII's budget is used for activities proposed and delivered by industry trade associations, universities, and research institutes based on each project's alignment with FII's overall investment strategy. Much of this work is jointly funded by FII, industry, and Natural Resources Canada through its *Canada Wood Export Program* and its *North American Wood First Initiative*. For 2008-09 the cost of activities delivered by other organizations were split as follows:

FII	43%
Natural Resources Canada and other federal agencies:	36%
B.C. forest industry:	21%

In 2008-09 FII leveraged more than $15.9 million of contributions from industry and the federal government, resulting in total product and market development initiatives by other organizations of $27.8 million.

In delivering its programs, FII responds to industry priorities. It does not duplicate the efforts of trade associations or provide business subsidies to individual firms. Rather, the emphasis is building demand for B.C. wood products through joint efforts with industry and the federal government. FII provides services of a general benefit to the sector, such as market outreach, research and demonstration projects. The following graphic illustrates



CORE BUSINESS

FII is organized into four business units that reflect the organizational focus on international marketing and communication activities.

Two significant changes occurred in 2008-09:

- FII assumed responsibility for managing the Canada-B.C. Wenchuan Earthquake Reconstruction Project, an $8 million donation of wood-frame buildings to the area of China ravaged by earthquakes in May 2008. While FII is managing the project, the $5 million provincial share of funding comes from the Ministry of Small Business, Technology and Economic Development. The project features wood frame construction using B.C. forest products and fits in with FII's broader marketing strategy in China.
- FII continued funding its Mountain Pine Beetle program after three-year funding from the *Mountain Pine Beetle Response – Canada-B.C. Implementation Strategy* concluded at the end of the 2007-08 fiscal year. FII is combining the program with its product development efforts since the focus of the MPB program is primarily in research and development.

Group or agency	Relationship
Government	
Government of British Columbia	Sole shareholder, providing most of FII's funding
Minister of Forests and Range	Minister responsible for FII
Ministry of Small Business, Technology and Economic Development	Co-ordinator of international economic development, trade, and investment initiatives
Department of Foreign Affairs and International Trade, Government of Canada	Federal agency supporting in-market trade missions and, in China, representing the Government of Canada in the Canada-B.C. Wenchuan Earthquake Reconstruction Project
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing programs through *Canada Wood Export Program* and *North American Wood First Initiative*
Stakeholders and partners	
B.C. forest industry associations: APA – The Engineered Wood Association BC Shake and Shingle Association BC Wood Specialties Group Canada Wood Group Canadian Wood Council – WoodWORKS! BC Cedar Shake and Shingle Bureau Coast Forest Products Association Council of Forest Industries First Nations Forestry Council Western Red Cedar Export Association Western Red Cedar Lumber Association Wood Products Council	Funding recipients that initiate and deliver domestic and international marketing programs (may also receive funding from Natural Resources Canada)
Post-secondary and research institutions: University of British Columbia British Columbia Institute of Technology FPInnovations (Forintek and Paprican Divisions)	Funding recipients that initiate and deliver product development and research, and overseas training programs to build local capacity in wood frame construction
Forest Products Association of Canada Department of Natural Resources, Government of Canada Department of Foreign Affairs and International Trade, Government of Canada FPInnovations (Forintek Division) B.C. Forestry Climate Change Working Group Sustainable Building Coalition	Partners in developing and delivering programs promoting the environmental benefits of wood products and Canada's sustainable forest practices
China	
Activities in China involve relationships with dozens of government agencies, the architectural faculties of several universities, the Chinese Academy of Forestry, municipalities, large government contractors, as well as the Canadian embassy and consulates, and B.C. forestry company representatives operating in China and Canada.	

BENEFIT TO THE PUBLIC

FII benefits the people and economy of British Columbia by:

- working with industry to maintain existing markets for B.C. forest products, and as a result, protect forestry jobs in resource communities;
- opening up new markets to B.C. and creating the potential for new jobs to service these markets;
- building the positive profile of B.C. internationally, particularly in the China and the Asia-Pacific region, which helps strengthen and grow trade ties; and
- supporting the growth of the green economy by promoting the environmental benefits of building with renewable, sustainable wood products from B.C. and continual improvements in the pulp and paper sector to help lighten its environmental footprint.

Additional information

FII's corporate office is located at 1200 - 1130 West Pender Street in downtown Vancouver, British Columbia, while the company's subsidiary office is located in Shanghai, with a satellite office in Beijing.

More information on FII is available at www.bcfii.ca. The "About FII" section includes copies of service plans, annual reports, and a corporate governance page with the Shareholder's Letter of Expectations, a report on the Status of Concurrence with Best Practice Guidelines, and terms of reference for the board of directors.

General information on B.C.'s forest products and sustainably managed forests is available at www.naturallywood.com

Corporate governance

BOARD OF DIRECTORS

The Board of Directors is accountable to the Minister of Forests and Range. The board has three positions:

- Chair: Dana Hayden, Deputy Minister of Forests and Range;
- Member: Don Fast, Deputy Minister of Small Business, Technology and Economic Development; and
- A third position that is currently vacant.

The board appoints the chief executive officer and oversees FII's policies, priorities and strategies.

The board's Audit Committee is responsible for reviewing, recommending and in some instances, approving financial statements and other information. The Audit Committee has three positions, all of which are vacant.

GOVERNANCE PRINCIPLES

The Board of Directors operates according to six guiding principles related to:

- stewardship, leadership and effective functioning of the board;
- clarity of roles and responsibilities;
- openness, trust and transparency;
- service and corporate citizenship;
- accountability and performance; and
- value, innovation and continuous improvement.

Details about how the guiding principles are applied are posted on FII's website at: http://www.bcfii.ca/about_fii/corporate_governance.htm.

Except for the temporary vacancies noted above, FII is substantially in accordance with governance best practices published by the Board Resourcing and Development Office. A detailed disclosure of concurrence is posted on FII's website at http://www.bcfii.ca/about_fii/corporate_governance.htm.

INDUSTRY ADVISORY COMMITTEES

Two committees of senior forest industry staff provide continuing advice to FII:

- the Strategy Committee offers input on all of FII's programming, investments and market development goals; and
- the Market Acceptance Advisory Group offers input on FII's Market Outreach programming.

FII MANAGEMENT

Ken Baker, CEO

Doug Greig, Vice President, Finance and Administration

Isabelle Des Chênes, Vice President, Market Relations

Mike Hogan, Vice President, China Operations

Michael Loseth, Vice President, International Marketing

OPERATIONS IN CHINA

FII operates in China through a wholly owned subsidiary registered under the laws of the People's Republic of China – FII Consulting (Shanghai) Co. Ltd (FII China). The subsidiary's year end is December 31 while FII's year end is March 31. The subsidiary is entirely funded by FII, and the yearly transactions of the subsidiary are reflected in FII's Financial Statements.

FII China does not have its own board of directors. In accordance with Chinese law, it is led by its Executive Director, who is Ken Baker, CEO of FII.

Report on performance

MARKET CONDITIONS

Reflecting the mandate of the organization to develop and diversify markets for B.C. forest products, FII tracks international sales of provincial forest products and global consumption of softwood products.

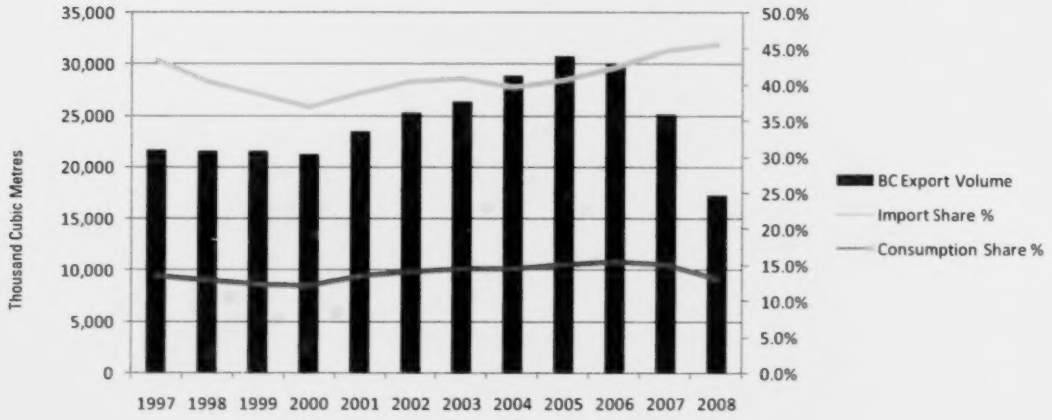
Summary of B.C. Commodity Wood Product Shipments and Exports—2008
(X000 m^3)

	Softwood Lumber	Softwood Plywood	OSB	MDF	Particle Board	Total Excl. Logs	%of Exports
	x000 m3	x000 m3 (3/8" basis)					
Exports							
USA	15,829	218	1,206	72	8	17,332	76.4%
Japan	2,707	9	174	0	0	2,890	12.7%
China	1,157	1	10	0	0	1,168	5.1%
Taiwan	238	0	2	0	0	240	1.1%
S. Korea	186	0	22	0	0	208	0.9%
Other Asia	395	1	0	0	0	397	1.7%
Australia	87	0	0	0	0	87	0.4%
New Zealand	14	0	0	0	0	14	0.1%
Europe (EU)	328	20	10	0	0	358	1.6%
TOTAL	20,940	249	1,425	72	8	22,694	100%
% of Total BC Exports	92.3%	1.1%	6.3%	0.3%	0.0%	100%	

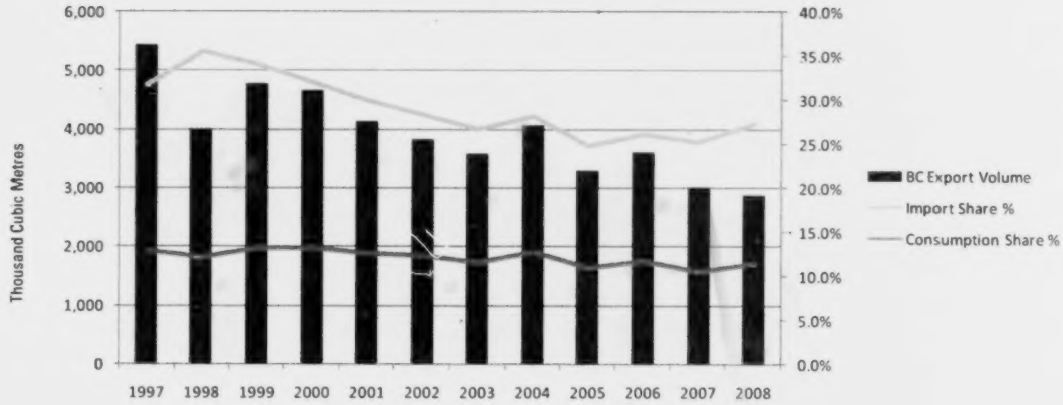
Note: For particleboard and MDF, production is used instead of shipments

A fall in demand for B.C. forest products that began in 2007 grew worse in 2008 as the world-wide economic meltdown had a dramatic impact on commercial and residential construction. By early 2009, housing starts in the U.S. were running at an annualized rate of less than 500,000, compared to the peak of 2.1 million in 2005. Demand for wood products has declined world-wide, leading to widespread mill shutdowns in B.C. and in competing forest economies.

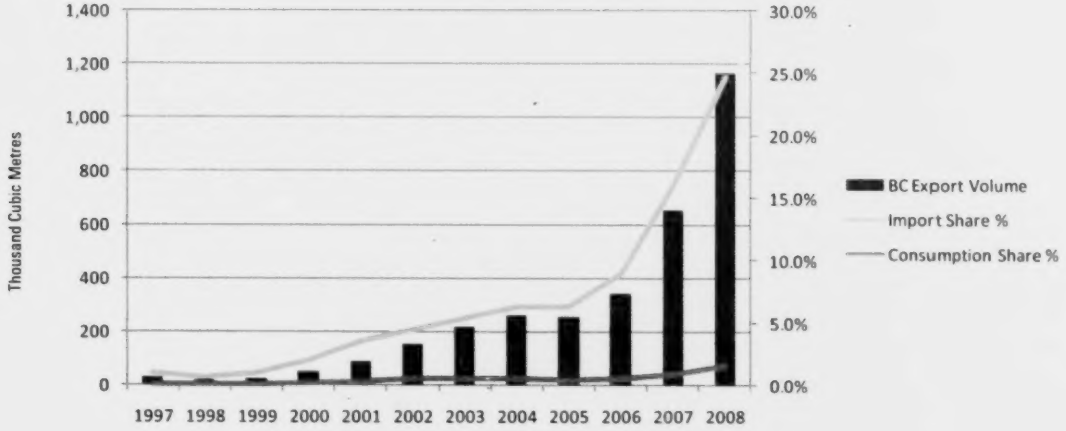
B.C. Softwood Commodity Product Sales in U.S.A.
(Softwood lumber, plywood, OSB, MDF and Particleboard)



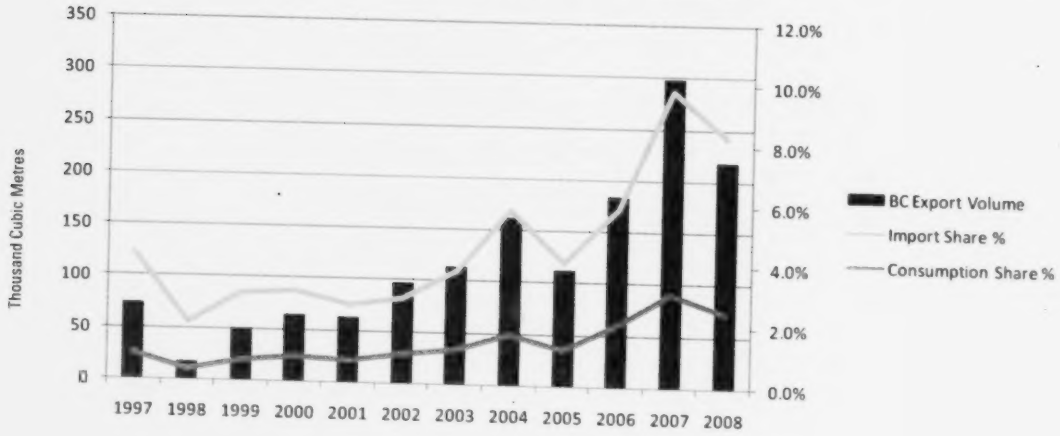
B.C. Softwood Commodity Product Sales in Japan
(Softwood lumber, plywood, OSB, MDF and Particleboard)



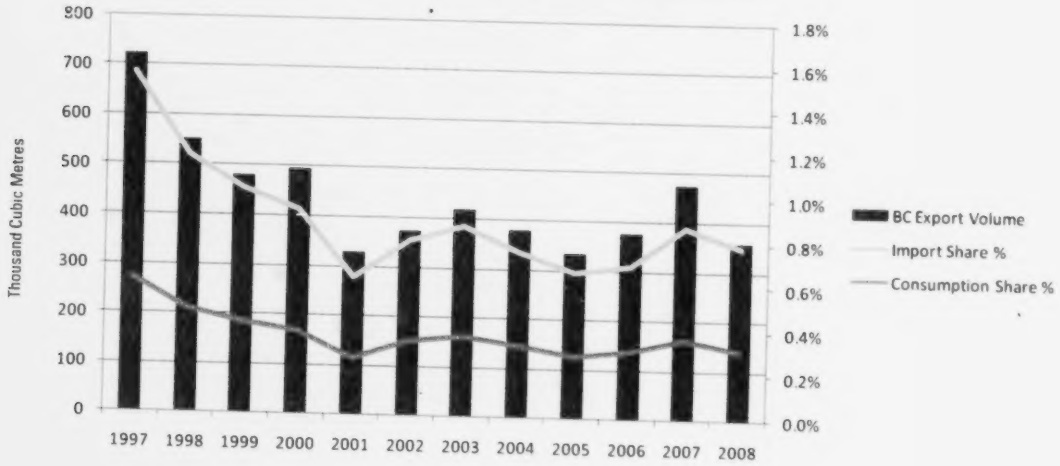
B.C. Softwood Commodity Product Sales in China
(Softwood lumber, plywood, OSB, MDF and Particleboard)



B.C. Softwood Commodity Product Sales in Korea
(Softwood lumber, plywood, OSB, MDF and Particleboard)



B.C. Softwood Commodity Product Sales in EU
(Softwood lumber, plywood, OSB, MDF and Particleboard)



Risks and opportunities

INTERNAL ECONOMIC AND INDUSTRY FACTORS

The only change in FII's internal operating environment in 2008/09 was the added responsibility of delivering the *Canada – B.C. Wenchuan Earthquake Reconstruction Project* in China. Temporary contract staff have been retained to assist with the project.

FII also responded in 2008/09 to the following economic and industry factors.

Risk	FII Response
United States market: • As the buyer of more than 80% of B.C. softwood product exports, the United States market has the greatest influence of any market on the over-all strength of the provincial forest economy.	• Targeted 16% of project funding to U.S. activities • Introduced a non-residential strategy to promote wood use in the construction of commercial and institutional buildings as a means of shifting demand away from the heavy reliance on the housing sector • Actively promoted the merits of BC wood products in the context of mitigating climate change, and specifically to the rapidly growing "green building" community
Mountain Pine Beetle: • MPB fibre potentially increases costs and reduces efficiency of harvesting, milling and processing	• Provided $1.2 million to FPInnovations, BC Wood Specialties Group, and the University of British Columbia for research projects in fibre quality and manufacturing processes in 2008/09 from the over-all FII budget after funding concluded from the Mountain Pine Beetle Response – Canada-B.C. Implementation Strategy • Completed a fourth and final sawmill volume and grade recovery study
Coastal forest sector: • A fibre base of largely Hem-Fir, shifting to second-growth requires changes in marketing and milling activities	• Provided $23 million to coastal forest product associations for market promotion in the United States, Japan and China.
Value-added sector: • Secondary manufacturing uses about one-third of the provincial harvest; most firms are entrepreneurial and face increasing competition from overseas manufacturers	• Introduced the $1.8 million Business Innovation Program to assist firms with marketing, business planning, technology and productivity improvement • Provided $0.8 million to BC Wood Specialties Group to promote value-added products in numerous markets.
Green Public Procurement Policies: • Numerous global jurisdictions have introduced or are updating national procurement policies and assessment criteria for timber that could create market access issues for B.C. wood and pulp and paper products.	• Worked closely with industry and Canadian government stakeholders to advocate internationally for fair access to markets

Opportunity	FII Response
Asian Markets: • Region with greatest potential for growth in demand for wood products; well-established market presence in Japan, China, South Korea and Taiwan • 2008 sales of B.C. wood products to China were up 70% over 2007.	• Directed largest share of overseas expenditures to China • Initiated delivery of Canada – B.C. Wenchuan Earthquake Reconstruction Project to promote wood -frame buildings and Canadian technology as earthquake resistant and energy efficient, both factors of great interest to Chinese officials and developers
2010 Olympic and Paralympic Winter Games: • The Games will attract an international TV audience of billions of viewers and showcase British Columbia through extensive news coverage	• Funded wood use in Olympic venues, most notably the all-wood roof of the Richmond Olympic Oval and the interior walls and ceilings of the Vancouver Convention Centre • With industry partners, completed a communication strategy in 2008/09 to market wood use in the non-residential sector in North America; Olympic venues feature prominently in this campaign, which will unfold through 2009/10
Environmental building movement: • Greater emphasis on energy efficiency, sustainability, and other "green" factors is the most significant trend in the construction sector	• Launched a Green Building marketing strategy in 2008/09 to promote the environmental benefits of building with wood
Forest practices and climate change: • Public interest in forest management is shifting to the role of forests in coming to grips with climate change	• Continued to promote B.C.'s sustainable forest practices as a model for other jurisdictions as highlighted by the eco-based land management system introduced in March 2009 for coastal B.C. • Deployed new communication materials and campaigns, promoting the environmental credentials and carbon sequestration benefits of B.C. forests and forest products

PERFORMANCE MANAGEMENT

The performance measures listed under the following three goals are specific to the work of FII staff, and do not include a host of performance measures that apply to organizations to which FII directs over half of its budget. Those external performance measures are captured in FII's new *Performance Management Framework*, developed in 2008/09 in close collaboration with all funding recipients and now enunciated in the contracts between FII and each funding recipient, and posted at http://www.bcfii.ca/about_fii/corporate_reports.htm.

In striving for optimum performance measures, FII engaged a consultant in late 2008-09 to search for organizations with a mandate generally similar to FII's, and which might serve as useful benchmarks for assessing FII's performance. The consultant identified three organizations that work to increase forest product exports, namely the Quebec Wood Export Bureau, the European Wood Initiative, and Natural Resources Canada through its Canada Wood Export Program. The consultant also identified Tourism BC as an organization that may provide examples of useful performance measures.

Early in the coming year FII will assess whether it should modify any of its performance measures, and whether it makes sense to benchmark FII's results against those of these other organizations.

Goal 1: Expanded market opportunities that are beneficial to the B.C. forest sector

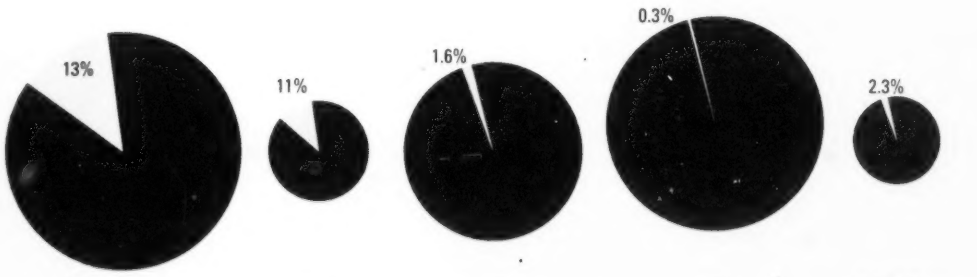
OBJECTIVES

The objectives under Goal 1 are to:

- maintain market share and presence in major markets, such as the United States and Japan;
- diversify into new geographic markets, such as China and South Korea; and
- develop new products and niche markets.

2008 sales and market share of B.C. softwood products in key markets*

Based on sales of five softwood products (lumber, plywood, OSB, particleboard and MDF) and B.C.'s share of total domestic consumption in each market. The size of the circles is proportional to the total size of each market for the five softwood product lines.



United States	Japan	China	EU	South Korea
132 million m^3	**25 million m^3**	**74 million m^3**	**114 million m^3**	**8 million m^3**
B.C. Sales 17.3 million	B.C. Sales 2.9 million m^3	B.C. Sales 1.2 million m^3	B.C. Sales 358,000 m^3	B.C. Sales 208,000

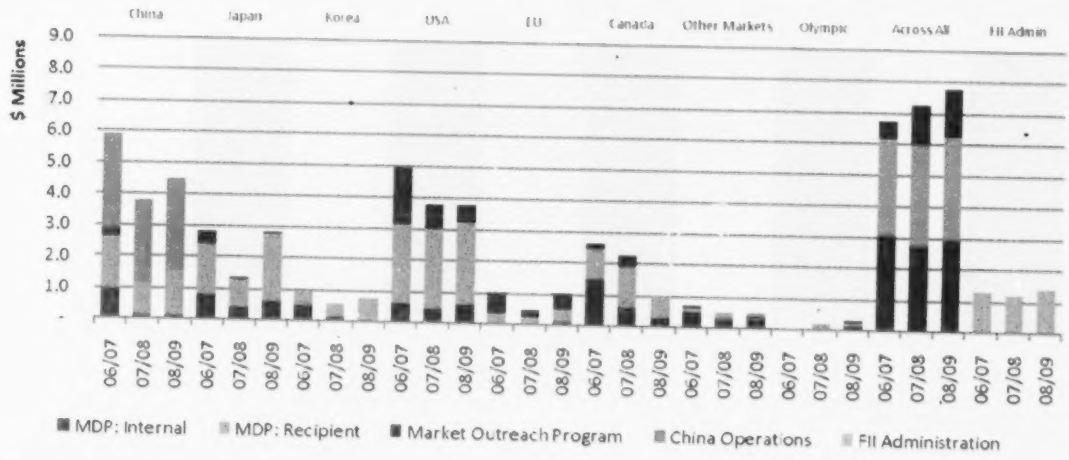
STRATEGIES

The primary strategy for Goal 1 is to share the cost of marketing programs initiated and delivered by industry trade associations. Each year, roughly half of FII's budget is directed towards these activities. This funding is used to:

- develop opportunities in new and existing markets;
- foster acceptance of Canadian wood frame building systems in priority markets; and,
- encourage customers to accept B.C. forest products as preferred materials.

FII staff also initiate market research studies and initial promotion where significant prospects are apparent.

The following graph summarizes the geographic focus of expenditures in each of the past three years:



MDP: Internal refers to funding for market development activities managed directly by FII, including market research and demonstration projects.

MDP: Recipient refers to funding provided to industry associations and other groups to carry out market development activities.

SIGNIFICANT ACCOMPLISHMENTS

In addition to the funding of market development activities by other groups, FII also:

- updated strategies for China, South Korea and Japan to reflect current market conditions
- completed in-depth review of market opportunities in the Middle East
- completed two wood frame demonstration homes in Mongolia where government is planning to build 100,000 new homes in the next few years
- received regulatory approval for a wood truss roofs to retrofit apartment blocks in Shanghai where 10,000 buildings are being renovated in the lead up to Expo 2010

- began construction of a school in Dujiangyan, China as the first phase of a three-year program to help rebuild public facilities in the area of China devastated by the May 2008 earthquake
- participated in eight trade shows and conferences in the United States and Japan
- supported the Canadian Wood Council in its work to update the provincial building code to include wood frame buildings of up to six storeys
- used major Olympic venues, including the Vancouver Trade and Convention Centre and the Richmond Olympic Oval to showcase wood use in commercial buildings to architects and engineers across North America
- fully implemented the *Business Innovation Program*, announced in fiscal 2007-08 to assist value-added firms with product design, business planning, technology improvements and marketing strategies
- completed a fourth and final sawmill lumber recovery strategy on mountain pine beetle wood in addition to funding 12 research projects carried out by other groups

MEASURES

A: Stakeholder support for market development program as measured in bi-annual survey (out of 10)

Target: Not applicable in 2008/09

Past performance		2008/09		Future performance targets	
2006/07	**2007/08**	**Target**	**Result**	**2009/10**	**2010/11**
No survey	8.0	No survey	No survey	8.0	No survey

Data source and reporting period: Independent third-party survey of 60 industry and government stakeholders last conducted in the 4th quarter of 2007/08

Importance of measure:

Stakeholder support is a direct indicator of the relevance and desirability of market development activities. The survey assesses numerous aspects of how well FII is performing.

B: Financial contribution of key partners to projects partially funded by FII

Target: Exceeded

Past performance		2008/09		Future performance targets	
2006/07	**2007/08**	**Target**	**Result**	**2009/10**	**2010/11**
51%	55%	50%	57%	50%	50%

Data source and reporting period: Audited FII financial statements for each fiscal year

Importance of measure:

The willingness of industry partners and the federal government to contribute to market development activities is a direct indicator of the value placed on these activities, particularly in the current downturn when available funds are so constrained.

C: Number of demonstration projects completed

Target: Exceeded

Past performance		2008/09		Future performance targets	
2006/07	2007/08	Target	Result	2009/10	2010/11
4	4	3	5*	5*	3

Data source and reporting period: FII internal performance management reports completed each fiscal year

* Includes projects in 2008/09 and 2009/10 for the Canada – B.C. Wenchuan Earthquake Reconstruction Project

Importance of measure:

Demonstration projects in China and other developing markets is a direct indicator of government support and interest in wood-frame construction, as foreign approvals and building permits are required before projects can be built

Market research has found that demonstration projects are highly effective at promoting wood-frame construction and B.C. forest products in markets where wood-frame construction is not well known

Goal 2: International recognition of B.C. as a leader in sustainable forest management

OBJECTIVES

The objectives under Goal 2 are to ensure that:

- customers and governments agree that B.C. forest products come from well managed forests;
- customers and governments recognize that the British Columbia forest industry is helping to reduce environmental impacts through sustainable forest management and the delivery of green building products;
- market communications are delivered in a collaborative, coordinated and strategic manner; and
- key stakeholders recognize the program as a leader in the delivery of market acceptance initiatives.

STRATEGIES

Strategies include:

- gathering market intelligence through research and surveys;
- monitoring and analyzing the internet and mainstream and trade media;
- financially supporting the development of science-based life cycle assessment tools to document the environmental superiority of forest products;
- providing advocacy support where B.C. forest products are unfairly targeted;
- producing technically accurate and credible information materials for a broad array of international and domestic audiences; and
- providing international customers with timely, credible information regarding B.C. forest practices and products, including pulp and paper.

SIGNIFICANT ACCOMPLISHMENTS

FII is working with the Forest Products Association of Canada and other industry groups to develop a marketing plan for North America to promote the environmental credentials of the North American forest industry.

Working with FPInnovations and the Forest Products Association of Canada, FII has delivered three important communications tools aimed at promoting the green building and climate change attributes of wood:

- *Building Green with Wood* (PowerPoint slides and Fact Sheets)
- *Canadian Wood. Renewable by Nature. Sustainable by Design.*
- *Tackle Climate Change, Use Wood* (Canadian Edition)

FII staff:

- participated in *Vancouverism* exhibit in London, U.K. to promote British Columbia's forest products and sustainable forest management practices at the London Festival of Architecture;
- participated in four major U.S. tradeshows targeted at builders and Architects, and one show in the UK;
- launched a new advertising campaign to promote British Columbia as an environmentally responsible source of sustainable fibre – in U.S. and International markets;
- hosted five green building and Sustainable Forest Management forestry tours for builders and legislators;
- supported life cycle assessment work and the Athena Institute's "Eco-Calculator" software to ensure customers, builders and architects have technical information they need about structural materials for their green building projects.
- with industry partners, lobbied the U.S. Green Building Council on the LEED rating system for building design. LEED is one of the most widely known systems for rating the environmental footprint of a building, but it does not currently recognize the environmental benefits of renewable wood products compared to alternative building materials; and
- with industry partners, provided technical information and support to Japanese and European officials to assist in development or updating of their green public procurement policies.
- An earned media program will be rolled out to support the overall forest sector promotion strategy for the 2010 Olympic Games.

MEASURES

D: Stakeholder support for market outreach program as measured in bi-annual survey (out of 10)

Target: Not applicable in 2008/09

Past performance		2008/09		Future performance targets	
2006/07	**2007/08**	**Target**	**Result**	**2009/10**	**2010/11**
No survey	7.8	No survey	No survey	8.0	No survey

Data source and reporting period: Independent third-party survey of 60 industry and government stakeholders last conducted in the 4th quarter of 2007/08

Importance of measure:
Stakeholder support is a direct indicator of the relevance and desirability of market outreach activities. The survey assesses numerous aspects of how well FII is performing.

E: Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment

Target: Exceeded

Past performance		2008/09		Future performance targets	
2006/07	**2007/08**	**Target**	**Result**	**2009/10**	**2010/11**
93%	No survey	90%	100%*	No survey	95%

Data source and reporting period: Independent third-party survey conducted in winter 2008

* Research methodology was updated in the 2008 survey with a new series of questions. The same firm conducted both surveys and was asked to independently report a result for 2008/09 that was comparable to the questions asked in 2006/07.

Importance of measure:

This measure tracks the effectiveness of the Market Outreach Program at influencing customer views on the environmental benefits of B.C. forest products. It is unlikely that every respondent will favour BC/Canadian forest products, and so a target of 95% seems appropriate for the next survey.

Goal 3: FII is highly effective, innovative and responsive organization

OBJECTIVES

The objective under Goal 3 is to ensure that:

- the organization is efficient, transparent, and results focused;
- expert staff are dedicated to the organization's success and committed to continuous improvement; and
- the organization embraces socially responsible practices.

STRATEGIES

Strategies include:

- ensuring FII is efficient, transparent and results focused by:
  - Keeping corporate support costs at or below 7% of total budget;
  - Monitoring, auditing and evaluating projects delivered by other organizations, according to explicit risk assessments;
  - Regularly reporting on the results of investments in accordance with government and contractual requirements; and
  - Ensuring the integrity of funding to other organizations, provided in a timely fashion;
- attracting and retaining expert staff dedicated to the organization's success and committed to continuous improvement; and
- embracing socially responsible practices, including minimizing the organization's carbon footprint, promoting environmentally responsible business activities, and purchasing environmentally friendly products.

MEASURE

F: Timeliness of annual funding cycle for trade associations, research institutions, and universities

Target: Achieved

Past performance		2008/09		Future performance targets	
2006/07	**2007/08**	**Target**	**Result**	**2009/10**	**2010/11**
Funding available by April 1	Funding available by April 1	Funding available by April 1	Funding available by April 1	Funding available by April 1	Funding available by April 1

Data source and reporting period: Internal FII tracking

Importance of measure:

Half of FII's budget is used to fund activities proposed through an annual Call for Proposals process. Roughly 70 proposals describing thousands of proposed activities, each with specific cost estimates and cost sharing are peer reviewed and explicitly point ranked against pre-set evaluation criteria. Performance Measure F tracks how efficient FII is in managing this annual process.

Shareholder's letter of expectations

In 2008/09, FII operated according to direction included in Shareholder's Letters of Expectations (SLEs), signed by the Minister of Forests and Range in February 2008 and updated in January 2009. With slight variation from previous SLEs, the most recent letter stipulated FII's high-level mandated to be:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- work with the forest industry to promote B.C.'s world-leading forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

The following table summarizes the specific direction in the SLEs that applied in 2008/09, and the relevant actions taken by FII:

Minister's Direction to FII	Actions Taken in 2008/09
Continue to work closely with industry and government representatives in international markets	Close collaboration with B.C. trade associations continues to be paramount insofar as half of FII's budget is used to pay in whole or in part for work that they propose and deliver. The collaboration is especially close in China, where FII's subsidiary operates side-by-side with trade association employees, and where priorities are informed by frequent visits by B.C. company executives.
Harmonize export promotion programs with those of the Government of Canada	FII's annual Call for Proposals process underpins the funding provided to trade associations for their market development and promotion work. The process is intimately harmonized with that of Natural Resources Canada, with both based on mostly common funding policies, and a common web-based system by which eligible organizations apply for funding , receive advances, report progress, and are audited. FII and NRCan staff are in contact almost daily to co-ordinate changes to policies, priorities, and administration.
Continuously assess FII's broader operating context to identify strategic opportunities and potential barriers that need to be overcome.	Following earlier in-depth analyses of the overall market potential in five Asian countries, in 2008/09 FII examined the overall potential in four Middle East countries, and specific niche opportunities in the United States, Mexico, Europe, Russia, Japan, Korea, and China. In consultation with scores of industry and government experts, FII and NRCan updated joint market development strategies for Japan, Korea, and China. These will guide programming over the next four or five years.

Minister's Direction to FII	Actions Taken in 2008/09
Actively participate in the Province's Asia-Pacific Gateway initiatives.	FII has no mandate or expertise to contribute towards encouraging Asian investment in BC, but is a major factor in encouraging trade. One-third of FII's budget was allocated to fund work specifically targeted to Japan, Korea, China, Vietnam and Mongolia.
Follow government best practices in procurement and contracting policies, including ownership of intellectual property.	FII operates according to the same contract administration rules as the Ministry of Forests and Range, and applies those rules to its funding recipients. Each funding agreement stipulates that FII has essentially unlimited rights to any intellectual property created under terms of the agreement.
Establish investment strategies and other programs from time to time in consultation with the FII Industry Strategy Committee	The Strategy Committee, consisting of seven industry CEOs and vice presidents, met three times during the fiscal year, once in concert with industry advisors to NRCan, and once on the immediate heels of FII's annual public information session with a host of stakeholders. On each occasion, they were able to comment on any and all of FII's program priorities, strategies, and communications materials. Several of the members engaged individually with FII staff on numerous occasions through the year. The Committee's input was reflected in formal investment strategies posted with the annual Call for Proposals.
Manage funding processes in a timely and efficient manner.	As usual, the annual Call for Proposals was posted in early December. 69 proposals were received by the late January cut-off. They were evaluated in February, with all funding decisions transmitted to proponents by mid-March. Twelve of an anticipated 35 recipient agreements were completed by FII staff by April 2nd, with the remainder awaiting proponents' changes to their workplans to reflect the funding decisions.

Minister's Direction to FII	Actions Taken in 2008/09
Reimburse eligible recipients only for costs that are reasonable and in accordance with FII's eligible cost rules.	All funding agreements include detailed descriptions of eligible and ineligible costs. All funding is subject to rigorous monitoring through the year, and to audit after year-end.
Ensure that the programs delivered by its wholly-owned subsidiary in China are in full compliance with recognized Canadian business practices, subject to complying fully with Chinese laws.	FII's subsidiary is held to essentially the same human resource policies and the same procurement standards as the parent company, which in turn is tied to British Columbia Government standards. Compliance with Canadian standards and Chinese law is monitored closely and continuously by FII's finance and administration staff in Vancouver, and is tested by external and internal audits each year.
Operate according to the terms of a funding agreement with the Ministry of Forests and Range that provides for, among other things, audit plans, internal audits, monthly, quarterly, and annual reporting, and annual reconciliation statements.	FII operates in accordance with a January 2008 funding agreement with the Ministry, which includes all the elements listed in the Shareholder's Letter of Expectations.
Participate in, and implement any changes arising from a review of the composition of the Board of Directors to be lead by the Shareholder.	The Minister of Forests and Range initiated a review of the Board membership in late 2008. FII staff contributed their advice on the mix of expertise needed for providing informed, robust direction. In early 2009, the Chair of the Board was reassigned to a different Ministry, and his successor as Deputy Minister of Forests and Range became the new Chair.

The most recent SLE instructed FII to begin to measure, report on, and reduce FII's greenhouse gas emissions in accordance with government's objectives across the public sector. FII has begun to do that, including tracking emissions attributable to staff travel even though government guidelines do not yet require that of Crown agencies.

Financial report

MANAGEMENT DISCUSSION AND ANALYSIS

FII began the year expecting to spend a total of $24.0 million based on equivalent funding from the Ministry. Actual expenditures (including non-cash items), compared to the previous year, were as follows:

	2008/09 $ million	2007/08 $ million
Actual costs:		
– cash	24.294	21.589
– pre-paid lease of Dream Home Canada	1.338	1.370
– amortization	0.445	0.449
– TOTAL	26.077	23.408
Payments to other organizations based on annual call for proposals	$11.5million, or 44% of total expenditures	$10.4 million, or 44% of total expenditures

The actual cash expenditure of $24.3 million included $1.9 million for Wenchuan Earthquake reconstruction in China, which had not been anticipated at the beginning of the year. This was offset by a cash contribution of $1.7 million from the Ministry of Small Business, Technology and Economic Development, which similarly was not anticipated at the beginning of the year.

FII's payments to funding recipients covered 43% of the total cost of their cost-shared projects, with the federal government contributing 36% and the funding recipients contributing 21%. FII's share was down from 45% the previous year, reflecting a slightly different mix of activities by the funding recipients.

Ignoring the unplanned contribution of $1.7 million from the Ministry of Small Business, Technology and Economic Development, FII under-spent by $1.4 million relative to the initial plan. This was attributable in part to funding recipients and in part to FII's internal program delivery:

Funding recipients ultimately spent $479,000 (or 4.2%) less than was committed to them at the beginning of the year. The trade associations in particular were faced with internal pressures to lessen expenditures in 2008 because of the historically low sales revenue to their members. In 2008/09, the funding recipients' under-spending was in:

- Business Innovation Program: $191,000 primarily because BC firms did not fully take up the service offered to them on a 50/50 cost-shared basis by BC Wood Specialties Group and FPInnovations.
- Other Market Development Programs: $288,000 because a number of projects were scaled back, delayed or cancelled.

Internally, FII spent $920,000 (or 7.4%) less than originally planned, the significant variances being as follows:

- Ministry direction: In mid-year the Ministry instructed FII to return at least $200,000 at year-end.
- Market Outreach Program: $391,000 less than originally planned, primarily because:

- less work was done to promote third-party forest certification, and the costs incurred were ultimately shared by other organizations;
- trade show presence and costs were scaled back; and
- contractors were engaged to a lesser extent than planned.

The reason why less work was done in the Market Outreach Program overall is because two of the three Program staff were on personal leave for most of the fiscal year. Their temporary replacements were entirely capable, but not sufficiently knowledgeable and connected to deliver a full program.

- Corporate Support: $221,000 less than planned, mostly due to a lower cost for salaries, and requiring less legal advice and other professional contractor support..

The above under-expenditures were off-set by a gain in managing currency exchange rates and by:

- Making grants to the University of Northern British Columbia, Northwest Community College, and BC Wood Specialties Group that had not been planned at the start of the year.
- Spending more than planned in China Operations, primarily to top up the Province's donation towards Wenchuan Earthquake reconstruction projects.

LOOKING AHEAD

Within the context of overall funding from the Ministry of Forests and Range being reduced by three percent year-over-year, and evolving direction from the Minister and Ministry, FII will continue to aim for a balanced portfolio of expenditures, with about half aimed at protecting and expanding well-established market sectors in the United States, Japan, Europe and Australia, and half aimed at creating demand in other regions, most notably China, Taiwan, Korea and Vietnam.

Funding to other organizations through the annual Call for Proposals process is expected to total $11.7 million, up from $11.2 million last year. Funding for FII's internal programming will be about $9.5 million, not including $2 million to support the Ministry's announced value-added initiatives. This will compare to $12.0 worth of internal activities last year.

For 2009/10, FII will carry a greater share of the cost of activities proposed and ultimately delivered by trade associations and others. In the *Business Innovation Program*, cost-sharing requirements will be applied separately for different types of activity, instead of being applied for the program as a whole. This will allow greater flexibility in the mix of activities delivered by the relevant funding recipients.

FII's funding to the *Business Innovation Program* will be reduced by $500,000 because Western Economic Diversification Canada has indicated it will contribute some $675,000.

The market development program in China will be significantly ramped up with two large contributions by Natural Resources Canada. As announced in mid-2008, it will provide FII China with $3 million for Wenchuan Earthquake reconstruction projects. NRCan tentatively plans to also provide FII China with some $2 million for one or more wood frame demonstration projects in Shanghai. Including all Federal, Provincial, and private-sector

contributions, the full program in China will amount to about $12.8 million, up from $8.5 million in 2008/09.

Since half of FII's budget is annually committed to fund the work that other organizations propose, the company is always at risk that they will not deliver what they set out to do, and hence FII will fail to achieve its objectives. Typically the reasons are because circumstances have changed in the market place, triggering a change in priorities, or the funding recipients find that they do not have the human or financial capacity to complete what they had planned to do. To minimize surprises in under-spending by other organizations, FII staff closely monitor their evolving work plans through the year, frequently re-profile funding allocations, and amend forecasts for the balance of the year, making the Ministry aware of any significant looming surplus so that it can make better use of the funding if it chooses.

Despite close monitoring by FII staff, and continuous re-profiling of recipient funding, those organizations have consistently turned back advanced funding that they had indicated they would be consuming. Over the past six years, the unanticipated year-end turn-back ranged from $325,000 to $650,000.

Irrespective of any year-end surpluses, Federal contributions are critical in supporting industry-led and delivered market development programs. For the $22.7 million worth of such activities to which FII contributed in 2008/09, the federal government contributed $9.3 million. Without that, the programs would be dramatically less robust and effective. Natural Resources Canada has renewed its *Canada Wood Export Program* (CWEP) for 2009/10 and 2010/11, and its *North American Wood First Initiative* for the same period.

In terms of internal capacity, FII staffing in Canada is expected to remain stable at 16 permanent positions and one position filled through a temporary assignment. In China, one or two longstanding contractor positions may be converted to permanent employee status, which would be added to the eight permanent positions currently in China.

The greatest internal risk for FII lies with the potential for staff turnover. FII being as small as it is, every position is unique and there are no redundancies in job content. There is little opportunity for anyone to advance to a more senior position as his or her knowledge and skill sets improve. The fact that FII is funded on a year-to-year basis can be unsettling to some employees, as it certainly is for some staff in organizations that rely heavily on FII funding. If anyone leaves the company, there is virtually no internal capacity to fill the gap, and thus there is inevitably a significant learning curve when new people join FII.

The exposure to potential staff turnover is mitigated by proactively enabling and encouraging every employee to grow within his or her position. This means expanding his or her scope, inter-relating with a wide variety of stakeholders and learning from them, and participating in activities that are not strictly within each position's formal scope. Nevertheless, the company is certain to suffer temporary set-backs with the occasional departure of staff who have out-grown their positions.

Year-over-year financial data are summarized in the table on the following page.

Forestry Innovation Investment Ltd.
Statement of Funding and Expenditures By Program
Comparison to Budget and Prior year

	Current Year 12 months ended March 31, 2009	Current Year Original Budget	Prior Year 12 months ended March 31, 2008	Prior Year 12 months ended March 31, 2007	Prior Year 12 months ended March 31, 2006	Prior Year 12 months ended March 31, 2005	Year of incorporation 12 months ended March 31, 2004
Funding							
Receipts - Province of BC	$ 24,377	$ 24,000	23,408	$ 24,183	$ 22,416	$ 16,454	$ 26,531
Receipts - Wenchuan Reconstruction	1,700	-	-	-	-	-	-
Total Funding	$ 26,077	$ 24,000	$ 23,408	$ 24,183	$ 22,416	$ 16,454	$ 26,531
Expenditures							
Market Development	14,487	14,900	13,213	15,354	14,923	10,686	10,912
China - Market Development	4,227	2,800	3,964	2,189	1,550	1,287	930
China - Wenchuan Reconstruction	1,927	-	-	-	-	-	-
Product Development	1,700	2,250	1,980	2,211	1,456	-	-
Market Outreach Program	2,154	2,625	2,587	2,547	2,498	2,736	2,784
Corporate Support	1,137	1,425	1,215	1,236	1,394	1,288	1,272
Research	-	-		-	-	-	10,633
Amortization	445	-	449	646	652	547	-
Total Expenditures	$ 26,077	$ 24,000	$ 23,408	$ 24,183	$ 22,471	$ 16,544	$ 26,531
Excess of Funding Over Expenditures	$ -	$ -	$ -	$ -	$ (55)	$ (90)	$ -
Transfer from Contributed Surplus	-	-	-	-	55	90	-
Retained Earnings end of the year	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Statement of management responsibility

FORESTRY INNOVATION INVESTMENT LTD.

The financial statements of Forestry Innovation Investment Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. These statements present fairly the financial position of the Company as at March 31, 2009 and results of its operations and cash flows for the year ending March 31, 2009.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to facilitate the preparation of the financial statements in a timely manner.

The Auditor General of British Columbia has performed an independent audit of the financial statements of Forestry Innovation Investment Ltd. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of Forestry Innovation Investment Ltd.

K. Baker

Ken Baker
Chief Executive Officer

Douglas Greig
Vice President, Finance and Administration

Report of the Auditor General Of British Columbia

To the Board of Directors of
Forestry Innovation Investment Ltd., and

To the Minister of Forests and Range
Province of British Columbia:

I have audited the consolidated balance sheet of *Forestry Innovation Investment Ltd.* as at March 31, 2009, and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *Forestry Innovation Investment Ltd.* as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
June 15, 2009

John Doyle, MBA, CA
Auditor General

Forestry Innovation Investment Ltd.

Consolidated Balance Sheet
(in $000s)

As at March 31	2009	2008
Assets		
Current assets		
Cash	1,689	4,809
Restricted cash held in trust (note 5)	352	379
Accounts receivable	396	507
Prepaid expenses	360	527
Program advances (note 6)	146	709
	2,943	6,931
Dream Home Canada (note 7)	1,003	2,397
Capital assets (Note 8)	812	689
	4,758	10,017
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	1,240	1,669
Restricted funds held in trust (note 5)	352	379
Program payables (note 6)	130	204
Due to the Province of British Columbia (note 10)	1,221	4,486
	2,943	6,738
Deferred revenue (note 11)	1,815	3,279
	1,815	3,279
Shareholders s equity		
Share capital (note 12)	-	-
Retained earnings	-	-
	-	-
	4,758	10,017

Commitments (note 13)

On behalf of the Board

Director

Director

The accompanying notes and supplementary schedule are an integral part of these statements

Forestry Innovation Investment Ltd.

Consolidated Statement of Operations and Retained Earnings
(in $000s)

For the year ended March 31	2009	2008
Revenue		
Contribution from the Province of British Columbia	24,377	23,408
Contribution for Wenchuan Reconstruction Projects (note 14)	1,700	-
	26,077	-
Program costs		
Market Development Programs		
Market Development	14,487	13,213
China - Market Development	4,227	3,964
China - Wenchuan Reconstruction Projects (note 14)	1,927	-
Product Development	1,700	1,980
Total Market Development Programs	22,341	19,157
Market Outreach Program	2,154	2,587
Corporate Support	1,137	1,215
Amortization	445	449
	26,077	23,408
Excess of revenue over expenditures	-	-
Retained earnings end of the year	-	-

The accompanying notes and supplementary schedule are an integral part of these statements

Forestry Innovation Investment Ltd.

Consolidated Statement of Cash Flows
(in $000s)

For the year ended March 31	2009	2008
Cash flows used in operating activities:		
Excess of revenue over expenditures	-	-
Items not involving cash:		
Amortization of capital assets	445	449
Amortization of Dream Home Canada lease	1,338	1,370
	1,783	1,819
Changes in non-cash working capital	(2,927)	(1,217)
	(1,144)	602
Cash flows from investing activities:		
Adjustment to Dream Home Canada prepaid lease (Note 7)	56	-
Purchase of capital assets	(568)	(249)
	(512)	(249)
Cash flows from financing activities:		
Change in deferred revenue	(1,464)	(1,377)
	(1,464)	(1,377)
Decrease in cash during the year	(3,120)	(1,024)
Cash beginning of year	4,809	5,833
Cash end of year	1,689	4,809

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Forestry Innovation Investment Ltd.

Schedule of Expenditures by Business Segment
for the year ended March 31, 2009
(in 000's)

	Market Development	China Market Development	Product Development	Market Outreach	Corporate Support	2009 Total	2008 Total
Amortization	-	67	-	-	378	445	449
Auditing	169	18	-	-	72	259	292
Communications	14	-	-	-	53	67	78
Conferences and Trade Shows	1,118	63	-	403	-	1,584	1,738
Grants	1,125	120	-	20	-	1,265	668
Marketing	-	52	-	91	-	143	263
Office	86	418	5	99	198	806	818
Lease Amortization	-	1,338	-	-	-	1,338	1,370
Performance Management	94	-	-	-	-	94	121
Professional Services	15	164	3	40	170	392	471
Publishing	163	-	-	70	-	233	281
Strategy & Research Studies	522	282	-	433	-	1,237	1,501
Trade Missions	19	-	-	-	-	19	15
Travel & Business Costs	137	163	36	70	107	513	610
Wages and Benefits	694	878	121	570	591	2,854	2,250
Websites	41	-	-	41	-	82	65
Program Costs	10,286	2,608	1,535	311	-	14,740	12,376
Exchange Gain/Loss	4	50	-	6	(54)	6	42
Total	**14,487**	**6,221**	**1,700**	**2,154**	**1,515**	**26,077**	**23,408**

The accompanying notes and supplementary schedule are an integral part of these statements

Notes to the financial statements

1 - NATURE OF BUSINESS

Forestry Innovation Investment Ltd. (the Company), was incorporated on March 31, 2003 under the laws of British Columbia. A board of directors, all appointed by the government of British Columbia, governs the Company.

Market Development Program - uses project funding and partnerships with the Government of Canada, forest industry associations and research institutions, to:

- maintain and create opportunities for BC wood products in existing and emerging markets;
- ensure BC forest products have access to markets free from regulatory and other barriers;
- ensure buyers, consumers, designers, builders, developers and architects know about BC wood products and the many positive features they bring to wood-frame construction and interior finishing;
- support the development of innovative new forest products, including products using pine harvested from mountain pine beetle-attacked forests; and,
- provide markets and audiences with information on the properties and qualities of BC's premier forest products as well as the BC companies that supply them.

Market Outreach Program - is an in-house program that provides international buyers and others with credible facts that BC forest products come from well-managed forests.

Environmental campaigns that promote misleading or incorrect information are quickly challenged by Market Outreach and its partners. They also monitor the development of draft legislation and procurement policies that could impair the flow of BC forest products into a particular market, making relevant officials aware of frequently unintended consequences if the legislation or policy is adopted.

The Company is exempt from federal and provincial income taxes.

2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Consolidation

In 2004, the Company incorporated FII Consulting (Shanghai) Co., Ltd., a wholly owned subsidiary registered under the laws of the People's Republic of China.

Based in Shanghai, the subsidiary administers market development programs on behalf of the Company. There are restrictions imposed on the distribution of earnings and assets from the subsidiary to its parent, hence FII Consulting (Shanghai) Co.'s working capital has been disclosed as a program payable on the balance sheet. All significant intercompany transactions and balances have been eliminated upon consolidation at year end.
(See Note 6)

b) Financial Instruments

All financial assets and liabilities are initially measured at fair value. Measurement of the financial instruments in subsequent periods depends on their classification as described below.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income". Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

The Company has made the following classifications:

Cash and restricted cash held in trust are classified as held for trading and measured at fair value and all gains and losses are recognized in the period in which they occur. Accounts receivable and Program advances are classified as loans and receivables and are measured at amortized cost using the effective amortization method. Accounts payables and accrued liabilities, Restricted funds held in trust, Program payables and amounts Due to the Province of British Columbia are classified as other financial liabilities and are also measured at amortized cost using the effective interest method.

c) Asset Under Capital Lease

The Company entered into an agreement with a development company in China with respect to the construction and lease back of a demonstration centre and wood frame construction villas called Dream Home Canada. Construction of this project was completed December 31, 2006.All costs were capitalized at that time and are being amortized as lease payments over a three-year period starting January 1, 2007. (See Note 7 – Dream Home Canada)

d) Capital Assets

Capital assets are recorded at cost and amortization is being calculated on the straight-line basis using the following rates:

Computer Equipment	3 years
Computer Software	2 years
Furniture and Equipment	5 years
Leasehold Improvements	Term of Lease
Trade Show Booths	3 years
Website development Costs	2 years

Assets costing less than $1,000 are expensed in the year of acquisition.

e) Revenue Recognition

Contributions from the Province of British Columbia are for specific purposes and as such are deferred and recognized as revenue as the expenses are incurred.

f) Foreign Currency Translation

These consolidated financial statements are expressed in Canadian dollars. The Company's foreign operations, conducted through FII Consulting Co. (Shanghai) Ltd., are considered integrated operations and are translated from Chinese RMB using the temporal method of translation. Accordingly; monetary assets and liabilities are translated at the spot rates of exchange in effect at the balance sheet date; non-monetary items are translated at historical exchange rates in effect on the dates of the transactions. Revenues and expense items are translated at monthly average rates of exchange in effect during the month in which the transaction occurred, except for amortization which is translated at its corresponding historical rate. Realized exchange gains and losses are included in the consolidated statements of operations.

g) Impairment and Disposal of Long-Lived Assets

Long-lived assets, including capital assets and prepaid leases subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets held and used by the company is measured by comparing the carrying amount of the asset to the estimated value in use expected from the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount of which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

h) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities at the date of the financial statements. Significant areas requiring the use of management estimates include estimating the useful lives of long-lived assets, assessing the recoverability of accounts receivable, program advances, and accounts payable and accrued liabilities. Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from these estimates.

3 - CHANGES IN ACCOUNTING POLICY

Financial Instruments

On April 1, 2008 Forestry Innovation Investment Ltd. had adopted CICA Handbook sections 3862 Financial Instruments - Disclosures and 3863 Financial Instruments - Presentation, replacing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged its presentation requirements. The sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards impact the company's disclosures provided but do not affect the company's results of operations or financial position.

Going Concern

On April 1, 2008 the company adopted the amendment to CICA Handbook section 1400.08, General Standards of Financial Statement Presentation. The amendment gives guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to conditions that may cast significant doubt on the entity's ability to continue as a going concern. It is management's assessment that there are no such conditions present at year end. This new standard does not impact the company's financial position, results of operations or cash flows.

4 - FUTURE ACCOUNTING CHANGES

a) Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces the existing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard introduces changes to recognition, measurement and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The section applies to financial statements relating to fiscal years beginning on or after October 1, 2008. This standard will not affect the company's results of operations or financial position.

b) Consolidated Financial Statements

Section 1601 – Consolidated Financial Statements was issued in January 2009 and for Forestry Innovation Investment Ltd., will take effect April 1, 2011 with optional early adoption available. This section will replace Section 1600 – Consolidated Financial Statements. Section 1601 – Consolidated Financial Statements – defines the new standards for preparation of consolidated financial statements. This standard will not affect the company's results of operations or financial position.

5 - RESTRICTED CASH HELD IN TRUST

In the previous year the company's Market Outreach Program entered into a joint venture agreement with members of the "Programme for the Endorsement of Forest Certification" (PEFC), an organization promoting an internationally credible framework for forest certification schemes and initiatives in countries around the world. In conjunction with this effort, the company and its subsidiary, FII Consulting (Shanghai) Co., Ltd agreed to financially administer the moneys contributed to the program by the joint venture partners.

6 - PROGRAM ADVANCES AND PAYABLES

The company advances funds to recipient organizations during the year, based on recipient funding contracts, to carry out program activities. Historically these unspent advances have been repaid back to the Company prior to the end of the first quarter of the new fiscal year after fourth quarter reports have been submitted and final audits have been completed. At March 31, 2009, $146,000 has been identified as repayable by the recipients and has been set up as program advances (2008 - $709,000).

Program payables at March 31, 2009 of $130,000 (2008 - $204 ,000) relate to the net working capital at March 31, 2009 of Forestry Innovation Investment Ltd.'s subsidiary company, FII Consulting (Shanghai) Co., Ltd . This amount represents the net amount payable for programs being carried out by the subsidiary. The balance of program payable to FII Consulting (Shanghai) Co., Ltd. is comprised of the following elements:

	2009	2008
Cash	(20)	(392)
Accounts receivable	(71)	(43)
Accounts payable	221	639
Total	130	204

7 - DREAM HOME CANADA

	2009	2008
Prepaid lease	2,397	3,767
Adjustment to prepaid lease	(56)	-
Amortization	(1,338)	(1,370)
	1,003	2,397

Management determined that invoices previously accrued as part of the lease prepayment of Dream Home Canada were not payable, resulting in adjustments to the prepaid lease, deferred revenue, and due to province.

8 - CAPITAL ASSETS

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Computer equipment	533	376	157	163
Computer software	129	123	6	7
Furniture and equipment	302	202	100	113
Leasehold improvements	178	101	77	95
Tradeshow booths	1,845	1,504	341	232
Websites	566	435	131	79
	3,553	2,741	812	689

Cost includes the fair market value of certain assets transferred to the Company from the Province effective April 1, 2003, for one dollar. These assets are now fully depreciated.

9 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Trade payables	720	792
Accrued liabilities	520	877
	1,240	1,669

10 - DUE TO THE PROVINCE OF BRITISH COLUMBIA

On March 31 the amount due to the Province of British Columbia consisted of the following:

	2009	2008
Balance, beginning of the year	4,486	4,945
Funds received for current year operations	25,740	26,221
	30,226	31,166
Payments refunded back to the Province	(4,486)	(4,946)
Interest earned during the period	89	297
Program expenditures	(26,077)	(23,408)
Dream Home Canada lease amortization	1,338	1,370
Change in capital assets net of amortization	(123)	200
Advances against program expenditures	193	(193)
Adjustment to due to the Province of British Columbia	61	0
Due to the Province end of the year	1,221	4,486

Change in capital assets net of amortization represents assets acquired during the year of $568,000 (2008 - $249,000) less amortization of $445,000 (2008 - $449,000)

Adjustment to due to the Province of British Columbia represents the write down of Dream Home Canada Prepaid lease of $56,000 and disposal of capital assets with a net book value of $5,000.

The amount payable to the Province of British Columbia is subject to repayment upon completion of the final audited financial report for fiscal 2009 and is not subject to interest charges.

11 - DEFERRED REVENUE

Deferred revenue consists of contributions received for the construction of Dream Home Canada and the acquisition of capital assets. Revenue is recognized as these assets are amortized. The deferred revenue account, therefore, will increase by the purchase of assets and decrease by the amortization of those assets.

	2009	2008
Balance, beginning of the year	3,279	4,656
Decrease in Dream Home Canada net of prepaid lease expense	(1,338)	(1,370)
Increase/(Decrease) in capital assets net of amortization	123	(200)
Advances against program expenditures	(193)	193
Adjustment	(56)	
Balance, end of the year	1,815	3,279

Adjustment to deferred revenue reflects the write down of the prepaid lease of $56,000.

12 - SHARE CAPITAL

The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. The Minister of Forests holds the shares issued as the designated representative of Her Majesty the Queen in right of the Province of British Columbia

13 - COMMITMENTS

The Company has lease commitments for the premises it occupies at 1130 West Pender, kiosk space at the Tsawwassen Ferry Terminal, and one vehicle lease as follows:

	Lease Payments
March 2010	164
March 2011	157
March 2012	157
March 2013	118
March 2014	-
	596

The Company also has an obligation to pay $236,000 in fiscal 2009/2010 for contracts entered into and not yet completed at March 31, 2009.

14 - WENCHUAN RECONSTRUCTION PROJECTS

In June of 2008, British Columbia (BC) Premier Gordon Campbell and the Honourable Gary Lunn, Canadian Minister of Natural Resources, announced a CDN $8 million project to provide wood- frame buildings to help survivors of China's May 12 Wenchuan earthquake.

The project is a collaborative effort between the Government of Canada and the Government of British Columbia. BC is providing CDN $5 million and the Government of Canada is contributing CDN $3 million. It involves constructing permanent wood-frame structures, including schools, orphanages, senior homes and community centres. Made from 100% Canadian structural lumber and using modern wood frame construction technology, all the structures will be designed and assembled locally in China.

The reconstruction project is being managed by Forestry Innovation Investment Ltd. and delivered through its Shanghai based subsidiary FII Consulting (Shanghai) Co. Ltd. FII Consulting (Shanghai) Co. in collaboration with Canada Wood Group China is providing on the ground Quality Assurance expertise and project management for the project. The project is expected to continue over three years with completion targeted for the 2010/2011 fiscal year.

As at March 31, 2009 Forestry Innovation Investment Ltd. incurred the following costs related to this Project;

	2009	2008
Funding from the Province of British Columbia	(1,700)	-
Program Costs	1,895	-
Exchange Gain/Loss	32	-
	227	-

15 - RELATED PARTY TRANSACTIONS

The Company is related through common ownership to all Province of British Columbia ministries, agencies and crown corporations and other public sector entities.

Forestry Innovation Investment Ltd. had the following transactions with its related parties:

	2009	2008
Revenues from the province		
Contributions from the Province of British Columbia	24,377	23,408
Contributions towards Wenchuan Reconstruction Projects	1,700	0
	26,077	23,408
Expenses		
Salary Costs	271	211
Program Costs		
UBC	1,055	711
UNBC	500	7
BCIT	36	84
Queens Printer	76	41
Northwest Community College	50	0
	1,988	1,054

Transactions with these entities, unless disclosed separately in these financial statements, are considered to be in the normal course of operations and are recorded at the exchange amount.

16 - FINANCIAL INSTRUMENTS

As at March 31, 2009 FII has the following financial instruments:

Financial Instrument	Balance 2009	Balance 2008
Cash	**1,689**	4,809
Accounts Receivable	**396**	507
Program Advances	**146**	709
Accounts Payable and Accrued Liabilities	**1,240**	1,669
Program Payables	**130**	204
Due to the Province of BC	**1,221**	4,486

The carrying value of Forestry Innovation Investments' financial instruments, approximate their fair value due to their short-term nature.

The management of Forestry Innovation Investment monitors and assesses the Company's exposure to risk through its financial instruments on an ongoing basis. Management uses a variety of processes to address these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Forestry Innovation Investment is potentially exposed to credit risk through cash, short-term investments and program advances. Cash and short-term investments are maintained with financial institutions of reputable credit and may be redeemed upon demand. Program advances are made to reputable recipients and management monitors the status of such advances on a continuing basis. It is the Company's opinion that its exposure to credit risk is subject to normal industry risks and is considered minimal.

Foreign exchange risk

Foreign exchange risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operations and financial results. The company is subject to foreign exchange risk through its program payables and a portion of the Company's program and tradeshow costs, which are denominated in Chinese Renminbi, Japanese Yen and other foreign currencies. Significant foreign exchange gain or losses are reflected as a separate component of the consolidated statement of operations. The Company does not use derivatives instruments to reduce its exposure to foreign currency risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Management maintains sufficient cash balances throughout the year to meet its short term obligations. It is the Company's opinion that its exposure to liquidity risk is subject to normal industry risks and is considered minimal.

17 - ECONOMIC DEPENDENCE

The company's operations are funded in full by the Province of British Columbia, through the Ministry of Forests and Range and the Ministry of Economic Development.

18 - COMPARATIVE FIGURES

Certain figures for 2008 have been restated to conform to the current year's presentation.

1. Contact information

CONTACT US AT:

Forestry Innovation Investment, 1200, 1130 West Pender Street, Vancouver, B.C., V6E 4A4

Tel: 604-685-7507
Toll Free: 1-866-992-2266
Fax: 604-685-5373
E-mail: info@bcfii.ca
Web: www.bcfii.ca

Forestry Innovation Investment

BRITISH
COLUMBIA
www.gov.bc.ca